

REVENUE

Budget Summary							
Fund	2000-01 Base Year Doubled	2001-03 Governor	2001-03 Jt. Finance	2001-03 Legislature	2001-03 Act 16	Act 16 Change Over Base Year Doubled	
						Amount	Percent
GPR	\$168,652,000	\$164,977,700	\$164,977,700	\$164,977,700	\$164,977,700	- \$3,674,300	- 2.2%
PR	15,215,200	15,474,400	15,625,000	15,625,000	15,625,000	409,800	2.7
SEG	<u>133,060,200</u>	<u>131,522,200</u>	<u>129,443,100</u>	<u>129,389,100</u>	<u>129,389,100</u>	<u>- 3,671,100</u>	- 2.8
TOTAL	\$316,927,400	\$311,974,300	\$310,045,800	\$309,991,800	\$309,991,800	- \$6,935,600	- 2.2%

FTE Position Summary						
Fund	2000-01 Base	2002-03 Governor	2002-03 Jt. Finance	2002-03 Legislature	2002-03 Act 16	Act 16 Change Over 2000-01 Base
GPR	1,095.75	1,097.15	1,097.15	1,097.15	1,097.15	1.40
PR	76.95	75.55	76.40	76.40	76.40	- 0.55
SEG	<u>137.00</u>	<u>136.00</u>	<u>136.00</u>	<u>135.50</u>	<u>135.50</u>	<u>- 1.50</u>
TOTAL	1,309.70	1,308.70	1,309.55	1,309.05	1,309.05	- 0.65

Budget Change Items

Tax Administration

1. STANDARD BUDGET ADJUSTMENTS

Governor/Legislature: Provide adjustments of \$707,100 GPR, -\$7,300 PR and -1.0 SEG positions annually and \$45,500 SEG in 2001-02 and \$36,400 SEG in 2002-03 for standard budget adjustments. Adjustments are for: (a) turnover reduction (-\$1,298,100 GPR and -\$114,800 SEG annually); (b) removal of noncontinuing positions and funding (-\$160,000 GPR, -\$50,700 PR and -1.00 SEG position annually and -\$45,600 SEG in 2001-

Funding Positions		
GPR	\$1,414,200	0.00
PR	- 14,600	0.00
SEG	<u>81,900</u>	<u>- 1.00</u>
Total	\$1,481,500	- 1.00

02 and -\$54,700 SEG in 2002-03); (c) full funding of continuing positions and salaries (\$1,986,400 GPR, \$34,900 PR and \$175,700 SEG annually); (d) BadgerNet increases (\$36,600 GPR and \$6,900 SEG annually); (e) fifth week vacation as cash (\$137,300 GPR, \$8,500 PR and \$9,700 SEG annually); (f) full funding of lease costs and directed moves (\$4,900 GPR and \$13,600 SEG annually); and (g) minor transfers within the same appropriation. In total, changes due to standard budget adjustments would increase funding by \$745,300 in 2001-02 and \$736,200 in 2002-03. Total position authority would be reduced by 1.00 FTE annually.

2. BASE BUDGET REDUCTION [LFB Paper 245]

GPR	- \$8,432,600
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Governor: Reduce the agency's largest GPR state operations appropriation by \$4,216,300 in each year. The total reduction amount was derived by making a reduction of 5% to all of the Department's GPR state operations appropriations. Include session law language permitting the agency to submit an alternative plan to the Secretary of Administration for allocating the required reduction among its sum certain GPR appropriations for state operations purposes. Provide that if the DOA Secretary approves the alternative reduction plan, the plan must be submitted to the Joint Committee on Finance for its approval under a 14-day passive review procedure. Specify that if the Secretary of Administration does not approve the agency's alternative reduction plan, the agency must make the reduction to the appropriation as originally indicated.

Joint Finance/Legislature: Modify the Governor's recommendation to provide that the agency may submit a request to the Joint Committee on Finance under s. 13.10 to reallocate any of the reductions to other sum certain GPR appropriations for state operations made to the agency.

[Act 16 Section: 9159(1)]

3. COMPUTER SYSTEM SUPPORT COSTS

GPR-REV	\$32,300,000
GPR	\$2,352,700

Governor/Legislature: Provide \$659,500 in 2001-02 and \$1,693,200 in 2002-03 to fund mainframe computer services provided by the Department of Administration Division of Information Technology Services (INFOTECH). Of the total, \$309,600 in 2001-02 and \$1,475,400 in 2002-03 would be used for charges related to operating the integrated tax system (ITS). The integrated tax system involves the use of technology to develop and implement a comprehensive modernization, upgrade and reorganization of DOR's tax administration personnel, activities, processes and systems into functional components. The Department is currently implementing components of the system. It is anticipated that the ITS will improve taxpayer services, the efficiency of tax collection activities and financial controls. The administration estimates that the new components of the ITS that are expected to be implemented during the 2001-03 biennium would increase general fund tax collections by \$10,900,000 in 2001-02 and \$21,400,000 in 2002-03. The additional

revenues would be generated by: (a) more efficient audit selection enabled by the data warehouse; (b) matching external information to Department records to identify use tax audit candidates and out-of-state business nonfilers with nexus; and (c) integrating business customer records among sales and use tax, income tax, withholding and local exposition district tax records enabled by taxpayer identification and the ITS improvements.

4. LTE SALARIES

Governor/Legislature: Provide \$376,200 GPR, \$16,900 PR and \$17,800 SEG annually for LTE salaries for limited-term employees engaged in tax processing activities. Increased expenditure authority provided for administering the county sales tax would reduce the amount lapsed from the county sales tax administrative appropriation. Consequently, GPR-Earned would be reduced by \$7,500 annually.

GPR-REV	- \$15,000
GPR	\$752,400
PR	33,800
SEG	35,600
Total	\$821,800

5. BADGERNET DATA TRANSMISSION LINE RATE INCREASES

Governor/Legislature: Provide \$119,500 annually to fund BadgerNet rate increases for data transmission line usage. The increased rates reflect use of upgraded transmission lines for increased traffic and providing emergency backup capabilities.

GPR	\$239,000
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6. DELINQUENT TAX COLLECTION CONVERSION ADJUSTMENT

Governor/Legislature: Provide 1.40 GPR positions and delete \$103,700 PR expenditure authority and 1.40 PR positions annually to adjust the funding source for the positions. This reflects conversion of delinquent tax collection activities from PR to GPR in 1999 Wisconsin Act 9. The Department would internally reallocate GPR funding provided by Act 9 to support the positions.

	Funding Positions	
GPR	\$0	1.40
PR	- 207,400	- 1.40
Total	- \$207,400	0.00

7. INTERNAL SERVICES APPROPRIATION MODIFICATIONS

Governor/Legislature: Modify the current statutory language for the Department's program revenue internal services appropriation to allow the Department's GPR appropriations, in addition to PR and SEG, to be charged for specific internal administrative services that are provided. Under current law, only PR and SEG appropriations can be charged for such services. In addition, annual expenditure authority of \$187,500 PR would be provided for the appropriation for photocopier services, general training, security access cards, telephone services and common internal operating costs. Matching program

PR	\$375,000
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revenue would be obtained from internal charge-backs to the Department's divisions. The appropriation modification would first apply to services provided on or after July 1, 2001.

[Act 16 Sections: 920 and 9344(15)]

8. INTERNAL SERVICES CLIENT FUNDING ADJUSTMENT

Governor/Legislature: Provide \$36,200 PR and \$6,700 SEG annually to various Department programs to pay for budget, accounting, payroll and personnel services provided by the Division of Administrative Services. The Division charges the Department's programs for services provided and the service fees paid are placed in the Division's internal services appropriation. The additional funding would be used for pay plan increases incurred since the internal services charge-back system was created in 1995 and for higher salaries for new administrative employees.

PR	\$72,400
SEG	13,400
Total	\$85,800

9. LOCAL EXPOSITION TAX ADMINISTRATIVE FEE [LFB Paper 800]

Governor: Provide that the amount of local exposition district taxes that the Department retains for administrative purposes that is unencumbered at the end of the fiscal year and that exceeds 10% of the amount expended during the fiscal year be distributed to the local exposition district.

Under current law, DOR administers and collects the local exposition district tax. Within the local exposition district, the exposition district tax is imposed at the rate of 0.25% of the gross receipts from the sale of food and beverages and 3% of the gross receipts from car rentals. The Department also administers the room tax collections of the district. DOR retains 2.55% of total collections to cover the costs of administering the tax. This amount was reduced from 3% of total collections under 1999 Wisconsin Act 9. At that time, DOR indicated that the appropriation for administration of the local exposition tax would have a significant unencumbered balance. Under the recommended provision, at the end of each fiscal year, the unencumbered balance in the administrative appropriation in excess of 10% of fiscal year expenditures would be distributed back to the exposition district.

It is estimated that, under this provision, the amounts distributed back to the district would be \$367,100 in 2001-02 and \$62,000 in 2002-03.

Joint Finance/Legislature: Approve the Governor's recommendation and reestimate the amount to be returned to the local exposition district to be \$348,100 in 2001-02 and \$49,700 in 2002-03. The revised estimate reduces the amount returned to the district by \$19,000 in 2001-02 and \$12,300 in 2002-03.

[Act 16 Sections: 917 and 934]

10. TRANSFERS BETWEEN APPROPRIATIONS

Governor/Legislature: Provide adjustments for the following transfers between appropriations within the same funding source: (a) transfer funding from the Divisions of Income, Sales and Excise Tax (ISE) and State and Local Finance (SLF) to Human Resources Services in the Division of Administrative Services (AS) and consolidate funding for a contract with a private vendor to provide an employee assistance program to Department employees; (b) transfer funding for rent related to the delinquent tax collection program from ISE to the Department's centralized space rental funding appropriation in AS; (c) transfer applications development positions and funding from ISE and SLF to the Office of Information Services (OIS) to reflect the centralization of information technology staff and funding in OIS; (d) transfer funding and 0.50 position from ISE to AS to consolidate parking services staff for the new DOR building; and (e) transfer funding from ISE to reflect centralization of the Department's public affairs and communications activities in the Secretary's office.

11. SERVICES APPROPRIATION LAPSE REQUIREMENT

Governor/Legislature: Eliminate the current requirement that the unencumbered balance in the Department's services appropriation on June 30, lapse to the general fund. The appropriation is used to fund services to external entities that reimburse the Department for the unbudgeted costs of the services. Reimbursements for services provided are the source of program revenue for the appropriation. Eliminating the lapse requirement is intended to give the Department more flexibility in funding services, such as LTE parking, that are provided over more than one fiscal year. The administration estimates that this provision would reduce GPR-Earned by a minimal amount each year.

[Act 16 Section: 919]

12. EXPERT PROFESSIONAL SERVICES APPROPRIATION MODIFICATION

Governor/Legislature: Convert the Department's expert professional services appropriation from an annual to biennial appropriation. The appropriation is used to fund expenses associated with the use of expert witnesses to testify on behalf of the Department in tax litigation.

[Act 16 Section: 918]

13. RECIPROCAL STATE TAX REFUND OFFSET AGREEMENTS

Governor/Legislature: Authorize the Department to enter into reciprocal agreements with other states to offset against Wisconsin tax refunds amounts owed other states for taxes if the other states agree to offset against their state tax refunds amounts owed Wisconsin for taxes.

Under current law, the Department is authorized to offset against state tax refunds and credits amounts owed for state taxes, debts to state agencies, delinquent child and spousal support and maintenance payments, and municipal and county fines, fees and forfeitures. Under the bill, the agreements with other states would have to provide that the current offsets would take precedence over the offsets for other states' taxes.

[Act 16 Section: 2205]

14. SECRETARY OF REVENUE APPOINTED TO DEPOSITORY SELECTION BOARD

Governor/Legislature: Replace the Executive Director of the State Investment Board with the Secretary of Revenue as a member of the Depository Selection Board. Under current law, the Depository Selection Board is attached to the Department of Administration and consists of the State Treasurer, the Secretary of Administration and the Executive Director of the State Investment Board. The Depository Selection Board is authorized to: (a) establish procedures for selection of public depositories by state agencies and procedures for contracting for depository services; (b) establish procedures by which state agencies pay for depository services through compensating balances, fees or a combination; (c) require competitive bidding for designation as a public depository; (d) establish by rule minimum depository operational requirements an institution must meet before being considered to serve as a public depository; and (e) upon request, assist state agencies in selecting depositories.

[Act 16 Section: 139]

15. BUSINESS TAX REGISTRATION ADMINISTRATION

[LFB Paper 801]

	Funding	Positions
PR	- \$57,600	- 0.65

Joint Finance/Legislature: Delete 0.65 position and \$28,800 annually from the business tax registration administrative appropriation.

Businesses are required to obtain a business tax registration certificate from DOR for certain licenses, permits and certificates related to sales and use, withholding, fuel and excise taxes. Applicants pay a fee based on the type of permit, license or certificate required; however, a single fee is paid for all such documents acquired. Fees are placed in a program revenue appropriation used to fund administration of the business tax registration system. The appropriation has base level funding of \$1,508,100 PR and 23.4 PR positions.

16. DEBT COLLECTION [LFB Paper 801]

GPR-REV	\$570,000
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Joint Finance/Legislature: Require the year-end unobligated balance in the debt collection administration appropriation to lapse to the general fund. As a result, GPR-Earned would increase by \$424,600 in 2001-02 and \$145,400 in 2002-03.

Under current law, DOR is authorized to offset against state tax refunds amounts owed for state taxes, debts to state agencies, delinquent child and spousal support and maintenance payments, and municipal and county fines fees and forfeitures. DOR is also allowed to enter into an agreement with the federal Internal Revenue Service (IRS) to offset state tax refunds against federal tax obligations if the IRS offsets federal tax refunds against state tax obligations. The administrative costs of collecting debts owed to state agencies and to municipalities and counties are funded through the program revenue debt collection appropriation. The source of revenue for the appropriation is an administrative charge imposed on state agencies and local units of government. The Department is generally authorized to charge for administrative services, but must annually review the administrative charge and adjust it to reflect costs incurred. Currently, DOR retains 1.5% of the amount of the debt offset for administrative costs.

[Act 16 Section: 917m]

17. COUNTY SALES TAX ADMINISTRATION [LFB Paper 803]

	Governor (Chg. to Base)	Jt. Finance/Leg. (Chg. to Gov)	Net Change
GPR-REV	\$1,900,500	- \$168,900	\$1,731,600

Governor: Estimate the year-end lapse from the county sales tax administrative appropriation to be \$827,700 in 2001-02 and \$1,072,800 in 2002-03.

Wisconsin counties can impose a 0.5% sales tax on the same goods and services that are subject to the state sales tax. The county sales tax is "piggybacked" onto the state sales tax in that the county tax is administered, enforced and collected by the Department of Revenue. DOR retains 1.75% of county sales taxes it collects in a program revenue appropriation to cover administrative costs. The year-end unencumbered balance in the appropriation is lapsed to the general fund. Currently, 54 counties impose the tax.

DOR is provided \$3,053,600 PR in base level funding and 33.25 PR positions to administer the county sales tax. The county tax is administered as part of the state sales tax administration system. Costs and positions are assigned to the county sales tax administration appropriation based on the workload attributed to administering the county tax.

Joint Finance/Legislature: Reestimate the lapse from the county sales tax administration appropriation to be \$782,800 in 2001-02 and \$948,800 in 2002-03. Consequently, GPR-Earned would decrease by \$44,900 in 2001-02 and \$124,000 in 2002-03. In addition, require DOR to distribute county sales tax collections to the counties within 75 days of the retailer filing deadline.

[Act 16 Section: 2247b]

18. SPECIAL DISTRICT TAXES (BASEBALL STADIUM DISTRICT) [LFB Paper 803]

	Funding	Positions
PR	- \$136,900	- 1.00

Joint Finance/Legislature: Delete 1.0 programmer analyst and expenditure authority of \$68,100 in 2001-02 and \$68,800 in 2002-03.

A 0.1% sales and use tax is imposed on the same goods and services that are subject to the state sales tax in Milwaukee, Ozaukee, Racine, Washington and Waukesha counties to fund a local professional baseball district (District). The District was created to fund the construction and operation of a new baseball stadium for the Milwaukee Brewers (Miller Park). DOR administers the sales and use taxes on behalf of the District and retains 1.5% of collections to fund administrative costs.

Base level funding of \$380,300 PR and 5.5 PR positions are provided to administer the baseball park tax. The tax is administered as part of the state general sales tax administrative system and the expenses for baseball park district activities and positions are charged to the special district taxes administration appropriation.

19. ADMINISTRATION OF PROFESSIONAL FOOTBALL STADIUM DISTRICT TAX [LFB Paper 803]

	Funding	Positions
PR	\$345,100	2.50

Joint Finance/Legislature: Provide \$207,500 in 2001-02 and \$137,600 in 2002-03 and 1.50 permanent positions and 1.0 project position ending June 30, 2002, to the professional football district administrative appropriation to implement and administer the Professional Football Stadium District sales and use tax.

A 0.5% sales and use tax is imposed on the same goods and services that are subject to the state sales tax in Brown County to provide funding for the Green Bay--Brown County Professional Football Stadium District. The District was created to fund the construction and maintenance of a renovated football stadium for the Green Bay Packers (Lambeau Field). DOR administers the sales and use tax for the District and retains 1.5% of collections for administrative costs.

In October, 2000, the Joint Committee on Finance, acting under s. 16.515 of the statutes, provided DOR with permanent positions and funding to administer the football stadium district tax. Specifically, the Committee provided DOR with expenditure authority of \$388,600 PR in 2000-01, \$207,500 PR in 2001-02 and \$137,600 PR in 2002-03 and 1.50 PR permanent positions and 1.0 project position ending June 30, 2002 to implement and administer the tax. However, the Governor's bill did not include this funding and position authority. This provision makes a technical modification that is necessary to provide the Department with the funding and positions approved by the Committee under s. 16.515.

20. STUDY OF RELOCATING TAX PROCESSING ACTIVITIES

Joint Finance/Legislature: Require the Department to study the feasibility of moving its tax processing activities in Madison to a location in Southwestern Wisconsin and to submit a report on the feasibility of such a relocation to the Governor and Legislature by January 1, 2003.

[Act 16 Section: 9144(2z)]

21. VOLUNTARY INCOME TAX ASSISTANCE

Joint Finance/Legislature: Require the Department to work with the Internal Revenue Service (IRS) and the University of Wisconsin Extension to undertake a program to: (a) promote volunteering among the state's financial and legal professionals in the Volunteer Income Tax Assistance (VITA) program; (b) provide training for the volunteers; and (c) assist with creating mobile sites offering assistance to rural and underserved areas. The Department would also be required to provide reasonable access for Wisconsin working families to free help preparing and filing their state income tax returns by January 1, 2002.

Veto by Governor [F-16]: Delete the requirement that the Department assist with creating mobile sites and that the Department recruit sufficient volunteers to provide reasonable access to free help in preparing tax returns by January 1, 2002. DOR is still subject to a more general requirement to recruit volunteers for the program.

[Act 16 Sections: 2205m and 9144(2x)]

[Act 16 Vetoed Sections: 2205m and 9144(2x)]

22. RECYCLING SURCHARGE ADMINISTRATION

Conference Committee/Legislature: Delete \$27,000 annually and 0.5 position allocated to administration of the recycling surcharge. As a result, \$231,800 and 1.0 position would be provided annually for administration of the recycling surcharge. [See "Natural Resources -- Air, Waste and Contaminated Land."]

	Funding	Positions
SEG	-\$54,000	- 0.50

Lottery Administration

1. LOTTERY SALES PROJECTIONS AND FUND CONDITION STATEMENT [LFB Paper 810]

Governor: Estimate lottery sales at \$412.4 million in 2001-02 and \$414.2 million in 2002-03. The following table shows the 2001-03 projections, as well as 2000-01 estimated lottery sales and 1999-00 actual sales. The 2000-01 estimate was established by DOA and the Joint Committee on Finance in October, 2000, for the purposes of certifying the amount available for the 2000(01) lottery and gaming tax credit.

Lottery Sales Projections (\$ in Millions)

<u>Game Type</u>	<u>Actual 1999-00</u>	<u>2000-01</u>	<u>2001-02</u>	<u>Percent Change from 2000-01</u>	<u>2002-03</u>	<u>Percent Change from 2001-02</u>
Scratch	\$235.6	\$237.6	\$238.5	0.4%	\$239.5	0.4%
Pull-tab	5.5	6.5	8.1	24.6	8.7	7.4
On-line	165.6	165.0	165.8	0.5	166.0	0.1
Total	\$406.7	\$409.1	\$412.4	0.8%	\$414.2	0.4%

The Governor's sales estimates are identical to those made by DOR in the Department's 2001-03 budget request. The projected increases in pull-tab sales are predicated on planned improvements in prize structure, recruitment and contracting procedures affecting nonprofit organizations that sell pull-tab tickets. The projected sales directly affect appropriations for retailer compensation and lottery vendor fees. The total revenue available for tax relief, minus a statutory reserve (2% of gross revenue) and the amount appropriated for the farmland tax relief credit, determines the amount available for the lottery and gaming tax credit. The bill appropriates \$107,400,000 in 2001-02 and \$108,400,000 in 2002-03 for the lottery and gaming tax credit. However, the available revenue under the bill would support credits of only \$102,735,200 in 2001-02 and \$102,672,100 in 2002-03.

Joint Finance/Legislature: Reestimate lottery sales to \$403.6 million in 2001-02 and \$402.9 million in 2002-03. The following table shows the reestimates in comparison to the Governor's estimates.

Reestimated Lottery Sales Estimates (In Millions)

Game Type	2001-02				2002-03			
	Governor	Act 16	Change		Governor	Act 16	Change	
			Amount	Percent			Amount	Percent
Scratch	\$238.5	\$232.7	-\$5.8	-2.4%	\$239.5	\$233.9	-\$5.6	-2.3%
Pull-Tab	8.1	4.2	-3.9	-47.9	8.7	3.9	-4.8	-55.0
On-Line	<u>165.8</u>	<u>166.7</u>	<u>0.9</u>	<u>0.5</u>	<u>166.0</u>	<u>165.0</u>	<u>-1.0</u>	<u>-0.6</u>
Total	\$412.4	\$403.6	-\$8.8	-2.1%	\$414.2	\$402.9	-\$11.4	-2.7%

These sales projections result in reestimated amounts for prizes, retailer compensation, vendor fees, interest earnings and the lottery and gaming tax credit. These reestimates are reflected in the following fund condition statement.

Act 16 Lottery Fund Condition Statement

	<u>2001-02</u>	<u>2002-03</u>
Fiscal Year Opening Balance	\$12,670,500*	\$8,074,400
Operating Revenues		
Ticket Sales	\$403,647,100	\$402,871,000
Retailer Fees and Miscellaneous	<u>72,000</u>	<u>72,000</u>
Gross Revenues	\$403,719,100	\$402,943,000
Expenditures		
Prizes	\$230,258,200	\$229,867,000
Retailer Compensation	28,519,700	28,352,000
Vendor Payments	12,575,400	12,790,500
General Program Operations	21,519,600	21,510,500
Appropriation to DOJ	285,300	289,100
Appropriation to DOR	203,900	203,900
Program Reserves	<u>259,400</u>	<u>539,000</u>
Total Expenditures	\$293,621,500	\$293,552,000
Net Proceeds	\$110,097,600	\$109,391,000
Interest Earnings	\$2,335,000	\$2,455,000
Gaming-Related Revenue	\$2,477,300	\$1,995,900
Total Available for Tax Relief **	\$127,580,400	\$121,916,300
Appropriations for Tax Relief		
Lottery and Gaming Tax Credit	\$104,506,000	\$98,857,400
Farmland Tax Relief Credit	<u>15,000,000</u>	<u>15,000,000</u>
Total Appropriations for Tax Relief	\$119,506,000	\$113,857,400
Gross Closing Balance	\$8,074,400	\$8,058,900
Reserve (2% of Gross Revenues)	\$8,074,400	\$8,058,900
Net Closing Balance	\$0	\$0

*Actual opening balance. Enrolled SB 55 assumed an opening balance of \$9,324,400.

**Opening balance, net proceeds, interest earnings and gaming-related revenue.

[Act 16 Section: 393]

2. RETAILER COMPENSATION [LFB Paper 810]

	Governor (Chg. to Base)	Jt. Finance/Leg. (Chg. to Gov)	Net Change
SEG	-\$2,219,700	-\$2,056,200	-\$4,275,900

Governor: Delete \$1,205,000 in 2001-02 and \$1,014,700 in 2002-03 to adjust base level funding for retailer compensation, including payments to retailers under the retailer performance program, to reflect projected lottery sales in the 2001-03 biennium. Basic retailer compensation rates under current law are 5.5% for online ticket sales and 6.25% for instant ticket sales. In addition, the retailer performance program provides an amount of up to 1% of for-profit sales (estimated at \$4.1 million annually, under the bill) as incentive payments to retailers. Base level funding of \$30,573,800, established under 1999 Act 9, was based on estimated lottery sales of \$427.3 million in 2000-01. Under the bill, lottery sales projections of \$412.4 million in 2001-02 and \$414.2 million in 2002-03, result in reductions to retailer compensation funding.

Joint Finance/Legislature: Delete \$849,100 in 2001-02 and \$1,207,100 in 2002-03 from the retailer compensation appropriation to reflect reestimated sales. Retailer compensation is estimated at \$28,519,700 in 2001-02 and \$28,352,000 in 2002-03.

3. VENDOR FEES [LFB Paper 810]

	Governor (Chg. to Base)	Jt. Finance/Leg. (Chg. to Gov)	Net Change
SEG	\$550,800	-\$22,900	\$527,900

Governor: Provide \$166,000 in 2001-02 and \$384,800 in 2002-03 to adjust funding for vendor fees to reflect projected lottery sales in the 2001-03 biennium. Base level funding for vendor fees is \$12,419,000. Vendor fees are paid on major procurement contracts for the provision of data processing services relating to on-line and scratch ticket lottery games. The fees are calculated on the basis of a formula containing both fixed costs and a percentage of on-line and scratch ticket sales. The fixed-cost component relating to on-line sales increases by 2% each year under the contract. The bill, therefore, assumes a 2% annual increase in the on-line fixed component of the contract in the 2001-03 biennium. Under the bill, vendor fees would total 3.1% of on-line and scratch ticket sales in the 2001-03 biennium.

Joint Finance/Legislature: Delete \$9,600 in 2001-02 and \$13,300 in 2002-03 from the vendor fees appropriation to reflect reestimated sales. Funding for vendor fees is estimated at \$12,575,400 in 2001-02 and \$12,790,500 in 2002-03.

4. REPEAL GPR APPROPRIATIONS FOR LOTTERY OPERATIONS [LFB Paper 811]

Joint Finance/Legislature: Repeal the GPR appropriations relating to the general program operations of the lottery, retailer compensation and vendor fees. Under Enrolled 1999 AB 133 (the 1999-01 biennial budget bill), GPR appropriations for lottery operations were created and funded in 1999-00 and 2000-01 as a mechanism to increase the amounts available for the lottery and gaming credit. Under partial vetoes by the Governor, the 2000-01 appropriation amounts for the three appropriations were deleted and the appropriation language for the retailer compensation appropriation and the vendor fees appropriation was modified. The effect of the partial vetoes was to limit expenditures from the appropriations to 1999-00 only and the appropriations are obsolete.

[Act 16 Sections: 920c thru 920g]

5. LOTTERY FUNDING FOR COMPULSIVE GAMBLING AWARENESS CAMPAIGN GRANT PROGRAM

Senate: Transfer \$250,000 annually from the general program operations appropriation of the state lottery to the Department of Health and Family Services (DHFS) for the compulsive gambling awareness campaign grant program. Provide that any unencumbered balance in the DHFS appropriation at the end of each fiscal year be transferred to the lottery fund. Provide that, of the amounts appropriated for the general program operations of the lottery, DOR could not expend more than \$4,358,000 in each fiscal year for advertising of the state lottery. In the 1999-01 biennium, DHFS provided annual grants totaling \$250,000 to an organization in the private sector to conduct compulsive gambling awareness campaigns. The program was funded with tribal gaming revenue. Lottery advertising funding, which is part of the general program operations appropriation of the lottery, is currently budgeted \$4,608,000 annually. Under this provision, the amount that could be expended on lottery advertising would be reduced by \$250,000 annually, but no reduction would be made to the general program operations appropriation of the lottery.

Conference Committee/Legislature: Delete the requirement that, of the amounts appropriated for the general program operations of the lottery, DOR could not expend more than \$4,358,000 in each fiscal year for advertising the state lottery.

[Act 16 Sections: 728p, 920h, 1142t and 1483gb]